

Kentucky Power Company

REQUEST

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

RESPONSE

- a. The 2011 and 2012 accounting entries referred to in the question relate to Generally Accepted Accounting Principles (GAAP) that required that the transfer of the Mitchell facility be reflected historically for all financial periods presented in Kentucky Power's published financial statements. This presentation was not shown for historical periods in FERC filings or for ratemaking purposes as the transfer did not occur until December 31, 2013.

For SEC reporting purposes, as of 12/31/2012, retrospective journal entries were recorded to transfer 50% of \$1,572,410 of costs related to four Mitchell Plant projects to KPCo. The 4 projects were: Waste Water Treatment study (\$926,394), a Bottom Ash Conversion Study (\$112,850), a HAPS Compliance Evaluation (\$423,053) and a Coal Silo Vent Improvement (\$110,113). KPCo's 50% for these four projects totaled \$786,205.

The transfer of these projects, which was reflected on the 12/31/2012 KPCO retrospective balance sheet, was achieved through the following entry:

Debit Account 1830000	\$786,205
Credit Account 2080000	\$786,205

- b. The projects amounts were in the following accounts at 9/30/2014:
Cooling Tower Blowdown Project (000020312 ML U0 Cooling Tower Blow Down);Account 107; \$1,058,386

Bottom Ash Conversion Study Account 183; \$115,086

Unit 1 and 2 ESP Upgrades Project (000021257 ML U1 ESP Upgrades and 000021259 ML U2 ESP Upgrades);

Account 101 \$1,481,796
Account 107 \$792,144

Coal Silo Vent Improvement Project (ML2MH1201 ML1 MH ROTOCLONE RPL and ML2MH1202 ML2 MH ROTOCLONE RPS);

Account 101 \$691,571

Except for those costs associated with the Bottom Ash Conversion Study, these costs represent the capital spent investment as of 9/30/2014 for those Capital Improvement projects which resulted from the preliminary investigations and engineering work, charged to the 183 account, that was performed prior to and in support of the decision to move forward with these projects. As is discussed in e.ii., the Company at this time has not made a decision to move forward with a Capital Improvement project associated with the Bottom Ash Conversion Study.

See e. for information regarding accumulated depreciation and depreciation expense.

- c. The charges related to the following projects:

Work Order X117944001 “Waste Water Treatment (WWT) Study”

This project was a study commissioned to conduct a data collection program at Mitchell Plant and use that data to build a dynamic computational water balance model. The study then used the modeling results to evaluate different operational options, including increased cycling of the Mitchell Plant Cooling Tower Blowdown (CTBD), with the plant's effluent limits. The result of this study indicated that increased cycling of the CTBD was possible while still meeting the effluent limits. The physical asset associated with this study includes the paper copy of the study. The study is currently used as a point of reference, representing a significant amount of data, for evaluating Mitchell Plant's operating conditions and associated compliance with effluent limits.

Work Order X117948001 “Bottom Ash Conversion Study”

This project was a conceptual study commissioned to evaluate the scope and cost of converting Mitchell Plant from a wet bottom ash handling system to a dry bottom ash handling system. The study was necessitated due to the proposed CCR and ELG Rules and currently provides a point of reference, representing a significant amount of data, for understanding the potential implications of the CCR and ELG Rules at Mitchell Plant. The physical asset associated with this study includes the paper copy of the study.

Work Order X118067001 “HAPS Compliance Evaluation”

This project was a study commissioned prior to the MATS Rule finalization, to perform an initial technology evaluation for compliance with the draft MATS Rule

at Mitchell Plant. The study evaluated different compliance options, including their feasibility and costs, to comply with the draft HAPs emissions limits at the time of the study. The physical asset associated with this study includes the paper copy of the study. The study is currently used as a point of reference, representing a significant amount of data, for evaluating Mitchell Plant's operating conditions and associated compliance with emissions limits.

Work Order X118165001 "Coal Silo Vent Improvement"

This project consisted of the front-end engineering and design to improve the ventilation control of the dust and methane emitted from Mitchell Plant coal silos. The goal of this project was to ensure the safety of the plant personnel and equipment from coal dust or methane explosions. The physical asset associated with this project includes the initial engineering drawings and corresponding design calculations. These drawings and design calculations are currently used for reference with the Mitchell Plant Coal Silo.

- d. See response to question (a) above.
- e.(i.) These projects represent the Capital Improvement projects which resulted from the preliminary investigation and engineering which was charged to the 183 account.

Cooling Tower Blowdown Project (000020312 ML U0 Cooling Tower Blow Down)The Company chose to move forward with the CTBD Project at Mitchell Plant, see AG_2_2CS_Attachment1.pdf, and include the costs associated with the Waste Water Treatment Study. The CTBD Project is under construction and is expected to be in service in July of 2015.

Unit 1 and 2 ESP Upgrades Project (000021257 ML U1 ESP Upgrades and 000021259 ML U2 ESP Upgrades)

Based on the study results and the final issuance of the MATS Rule, the Company determined that Mitchell Plant would not be required to make major upgrades to maintain compliance with its emissions limits. The study also identified opportunities for efficiency improvements on the Mitchell Plant ESPs and the Company chose to move forward with the minor upgrades, please see AG_2_2CS_Attachment1.pdf. Modifications to the Unit 1 ESP were completed and put into service in 2013 while modifications to the Unit 2 ESP will be completed in 2015.

Coal Silo Vent Improvement Project (ML2MH1201 ML1 MH ROTOCLONE RPL and ML2MH1202 ML2 MH ROTOCLONE RPS)

The Company chose to move forward with the Coal Silo Vent Improvement Project, see AG_2_2CS_Attachment1.pdf., and include the costs associated with the front-end engineering and design into the cost of the project. Both of the Coal Silo Vent Projects for Units 1 and 2 were completed in 2013.

The project costs in account 101 were provided in b. above. The depreciation expense and accumulated depreciation for each of the projects (were applicable) are as follows for the 12 months ended September 30, 2014:

HAPS Compliance Evaluation (Attachment AG_2_2CS_Attachment2)-
Account 403 \$43,246
Account 108 \$50,288

Coal Silo
Unit 1 (Attachment AG_2_2CS_Attachment3)-
Account 403 \$12,991
Account 108 \$19,490

Unit 2 (Attachment AG_2_2CS_Attachment4)-
Account 403 \$13,980
Account 108 \$20,969

Total Coal Silo
Account 403 \$26,971
Account 108 \$40,459

(ii.) Work Order X117948001 "Bottom Ash Conversion Study"

While the CCR Rule has become final, the ELG Rule has not and the Company is still in the process of evaluating the need to convert Mitchell Plant to a dry bottom ash handling system. The Company will make a decision regarding the need to install a dry bottom ash handling system once it has finished engineering evaluations of the Mitchell Bottom Ash Pond system relative to the CCR Rule and after issuance and analysis of the final ELG Rule. The amounts for this study is provided in b. above.

f. Please see the response to 2.e.(i.).

KPSC Case No. 2014-00396 General Rate Adjustment
Attorney General's Supplemental Confidential Data Requests
Dated February 27, 2015
Item No. 2
Page 7 of 8

- g. At 12/31/2013, the transfer date, the projects mentioned in the response to (a) above were transferred to KPCo at 100%. This is in compliance with AEP's policy to record the PS&I costs on the ledger of the company operating the plant. Since KPCo assumed the responsibility to operate Mitchell Plant on 12/31/2013, 100% of the project costs were transferred to KPCo. The external auditor's opinion was that 100% of the project costs at 12/31/2012 should have been transferred to KPCo for its retrospective balance sheet for SEC reporting purposes, rather than at 50% as noted in the question and responses in a. above. Note that account 183 does not impact ratemaking therefore, the policy to maintain 100% of the costs on Kentucky Power Company's books (the operator of the Mitchell plant) until a conclusion is reached to proceed or abandon does not impact the cost of service in this filing.
- h. At 12/31/2012, the \$786,205 is the 50% allocated value which was reflected historically in KPCo's financials for SEC reporting purposes as discussed in a. above. The other 50% was reflected historically on AEP Generation Resources.
- i. See AG_2CS_2_i_Attachment5.xls for the journal entries related to the \$786,205 at December 31, 2012.
- j. KPCo transferred 100% of the 1830000 balance at 12/31/2013 from OPCo, the entry on KPCo's ledger was as follows:

Debit Account 1830000	\$1,587,320
Credit Account 2080000	\$1,587,320

See g. above for an explanation of the transfer of 100% of the account balances in account 183 related to the Mitchell facility.

- k. The projects amounts provided in b. and e. are either in the total company amounts at 9/30/2014 used in rate base or in the cost of service with the exception of the amounts in account 183 which are excluded from rate base. The amounts in account 101 are included in property accounts 312 and 314. The amounts included accounts 107 are included in the calculation of rate base. The amounts in account 108 provided in e. is an offset to the rate base calculation and account 403 is included in the cost of service.
- l. See k. above

**KPSC Case No. 2014-00396 General Rate Adjustment
Attorney General's Supplemental Confidential Data Requests
Dated February 27, 2015
Item No. 2
Page 8 of 8**

- m. No.
- m. (i) N/A
- m. (ii) Tax and Book Basis are the same, therefore there is no ADIT.

- n. There would be no property taxes associated with the \$786,205 because it was in account 183 as of 12/31/2012.

- o. The \$786,205 was in account 183. as of 12/31/2012 and would have no depreciation or amortization expense related to the costs. See k. for the projects included in ratebase as of September 30, 2014.

- p. The company has not separately identified the O&M associated with these projects.

WITNESS: Jason M Yoder/Jeffery D LaFleur/Jeffrey B Bartsch

Kentucky Power Company

REQUEST

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

RESPONSE

- a. (i), a.(ii), a.(iii) See AG_2_3CS_Attachment1.pdf for the transfer of the pension cost related to Mitchell from Ohio Power Company to Kentucky Power Company
a.(iv) See AG_2_3CS_Attachment2.xlsx.
- b. No.
 - i. N/A
 - ii. The previous question in AG_2_2CS is in regard to costs recorded in account 183 and AG_2_3CS is in regard to ADIT associated with pension accounting.
- c. Yes. The ADIT adjustment was recorded as indicated in part a.(iv) above.
- d. Confirmed.
- e. The ADIT adjustment was included as part of the ADIT Balances as of September 30, 2014 and was included in the ADIT Balance as indicated on Section V, Exhibit 1, Schedule 4 - page 15 of the Filing.
- f. See the response to (e) above.

WITNESS: Jason M Yoder/Jeffrey B Bartsch/Hugh E McCoy